

Message Text

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PAGE 01 BONN 18505 01 OF 02 121549Z

53

ACTION EUR-12

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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R 121535Z NOV 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4326

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL HAMBURG

AMCONSUL DUSSELDORF

C O N F I D E N T I A L SECTION 01 OF 02 BONN 18505

E.O. 11652: GDS

TAGS: ENRG, GW

SUBJ: FRG CABINET TO DISCUSS ENERGY PROBLEMS

REF: BONN 15865

1. SUMMARY: FRG CABINET MEETS NOVEMBER 26 TO DISCUSS
WAYS TO RELIEVE MOUNTING PROBLEMS IN OIL AND COAL
INDUSTRIES. ECONMINISTRY OFFICIAL SAYS CABINET MAY
DECIDE TO (A) IMPOSE TEMPORARY IMPORT QUOTAS TO REDUCE GLUT
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PAGE 02 BONN 18505 01 OF 02 121549Z

OF HEAVY HEATING OIL AND (B) ASSUME PARTIAL BURDEN

OF FINANCING COAL STOCKS. CABINET AGENDA COVERS
IMPORT CONTROLS, INVESTMENT INCENTIVES, CHANGES IN
STOCKPILING LAW, FINANCING OF OIL AND COAL RESERVES,
AND WINDFALL PROFITS TAX. END SUMMARY.

2. NOVEMBER 11 EMBOFF SPOKE WITH BECKER, ECONMINISTRY
DEPUTY ASSISTANT SECRETARY FOR GAS AND OIL, RE
CURRENT FRG DEBATE OVER DOMESTIC ENERGY SITUATION.
THE ISSUES HAVE BEEN HIGHLIGHTED BY ECONMINISTER
FRIDERICH'S TWO RECENT MEETINGS WITH GERMAN PETROLEUM
ASSOCIATION (MWV); COAL INDUSTRY MALAISE OVER
GLUT IN SUPPLY DUE TO DEMAND DROP IN STEEL AND POWER
INDUSTRIES; INITIAL NOVEMBER 6 CABINET REVIEW OF
ENERGY PROBLEMS; AND MAJOR CABINET SESSION ON
NOVEMBER 26 WHICH PRESS SAYS WILL TAKE DECISIONS.

3. BECKER SAID THAT NOVEMBER 26 AGENDA HAS FIVE
MAJOR ISSUES. HE CAUTIONED THAT HIS OWN MINISTRY
DIVIDED ON WHAT TO DO INSOME CASES, AND HE COULD NOT
PREDICT WHAT CHANCELLOR'S DECISION MIGHT BE.

A. IMPORT CONTROLS. FRG HAS AGAIN REVIEWED MWV CALL
FOR IMPORT CONTROLS ON POL PRODUCTS WHICH WILL ENABLE
GERMAN OIL INDUSTRY MORE EASILY TO DISPOSE OF LARGE
SURPLUSES OF HEAVY HEATING OIL. (AS NOTED REF, THESE
SURPLUSES LIMIT INDUSTRY'S ABILITY TO RUN REFINERIES
AT HIGHER CAPACITY.) BECKER SAID ECONMINISTRY HAS
REJECTED GENERAL CONTROL OF POL IMPORTS AS CONTRAVENING
FRG'S EC OBLIGATIONS. MINISTRY SEES NO GREAT ADVANTAGE
IN IMPOSING CONTROLS AGAINST IMPORTS FROM NON-EC STATES,
WHICH SUPPLY ONLY 5 PERCENT OF FRG'S HEAVY HEATING OIL
REQUIREMENTS AND 30 PERCENT TOTAL POL NEEDS. HOWEVER,
MINISTRY STILL LOOKING FOR WAY TO RESTRICT INFLOW OF
HEAVY HEATING OIL FOR LIMITED PERIOD. ONE METHOD WOULD
BE TO IMPOSE TEMPORARY SYSTEM ON
COMPANIES, WHEREBY FRG WOULD ALLOCATE IMPORT QUOTAS OF
HEAVY HEATING OIL BASED ON THEIR PAST CONSUMPTION.
BECKER WAS SANGUINE THAT FRG COULD OBTAIN BRUSSELS
ASSENT TO SUCH DEVICE, IF CABINET APPROVES IT. HE
ADDED THAT AMERICAN OIL
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PAGE 03 BONN 18505 01 OF 02 121549Z

COMPANIES CLAIM THAT US ANTITRUST LAWS PREVENT THEM
FROM COOPERATING WITH "SELF-RESTRAINT" SYSTEM;
HOWEVER, HE HAD IMPRESSION THAT COMPANIES COULD GO
ALONG WITH EFFECTIVE FRG ORDER TO LIMIT THEIR IMPORTS.

B. INVESTMENT INCENTIVES. MWV HAS ASKED FOR TAX WRITE-
OFF OR OTHER INDUCEMENT TO INVEST IN CRACKING FACILI-
TIES WHICH COULD BREAK HEAVY HEATING OIL INTO MORE

MARKETABLE, LIGHT PRODUCTS FOR WHICH DEMAND IS RISING. MAJOR COMPANIES HOWEVER OPPOSE FRG AID, PREFERRING TO PLOW OWN FUNDS INTO CRACKERS WHEN/IF MARKET CONDITIONS ALLOW. BECKER SAID THAT MAJOR BENEFICIARY OF SUCH FRG TAX AID WOULD BE VEBA-GELSENBERG, IN WHICH FRG IS 40 PERCENT SHAREHOLDER AND WHOSE CHAIRMAN ALSO HEADS MWV. HE THOUGHT IT LIKELY THAT FRG WOULD AID VEBA-GELSENBERG ALONE.

C. STOCKPILING REQUIREMENTS. LARGE OIL COMPANIES COMPLAIN THAT FRG STOCKPILING LAWS DISCRIMINATE AGAINST THEM BY NOT REQUIRING SMALLER, PRICE-CUTTING

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PAGE 01 BONN 18505 02 OF 02 121553Z

53

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 18505

COMPANIES TO INVEST IN EXPENSIVE STORAGE FACILITIES UNTIL OCTOBER 1, 1976. FRG STUDYING GRAVITY OF THIS PROBLEM AND MAY DECIDE TO ADVANCE OCTOBER 1 REQUIREMENT FOR SMALLER COMPANIES IF IT DECIDES MWV COMPLAINT IS JUSTIFIED.

D. OIL, COAL RESERVES. BECKER SAID THAT ECONMINISTRY FY 1975 BUDGET HAS SOME DM 100 MILLION IN UNSPENT FUNDS WHICH WERE ORIGINALLY INTENDED TO SUBSIDIZE COKE SALES TO STEEL INDUSTRY. FRG PROPOSING TO USE CONFIDENTIAL

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PAGE 02 BONN 18505 02 OF 02 121553Z

THIS SUM TO ACCELERATE FY 1975 BUILDUP OF NATIONAL OIL RESERVE, AND IN EXCHANGE TO USE PART OF FY 1976 OIL-RESERVE FUNDS(WHICH ALREADY AUTHORIZED)TO ASSUME PART OF COAL INDUSTRY'S BURDEN IN MAINTAINING COAL/COKE STOCKS. BECKER PREDICTED CABINET WOULD TAKE FINAL DECISION NOVEMBER 26 AND THAT BUNDESTAG ECONOMICS COMMITTEE WOULD GIVE FORMAL ASSENT EARLY DECEMBER.

E. WINDFALL PROFITS TAX. CABINET PLANS TO DISCUSS REVIVED ISSUE OF WINDFALL PROFITS TAX ON DOMESTIC OIL/GAS PRODUCTION WHICH HAS BENEFITTED FROM OPEC-LED PRICE HIKES. THOUGH ECONMINISTER FRIDERICH'S INCLINES TO LET INDUSTRY REINVEST THESE PROFITS, LARGE PORTION OF SPD FAVORS TAXING THEM. BECKER IMPLIED THAT CHANCELLOR SCHMIDT, UNDER PRESSURE FROM HIS PARTY, MAY BE WAVERING ON ISSUE. HE SAID THAT FRG MIGHT DECIDE, IN LIEU OF WINDFALL PROFITS TAX, TO RAISE CURRENT 5 PERCENT ROYALTY WHICH COMPANIES PAY LAENDER GOVERNMENTS IN WHOSE BORDERS PRODUCTION OCCURS.

4. BECKER SAID FRG MUST TAKE CARE TO BALANCE ITS FAVORS AMONG COMPETING OIL, COAL, AND GAS SECTORS. FOR EXAMPLE, COAL INDUSTRY PROPOSAL TO CHANGE ELECTRIFICATION LAW TO REQUIRE GREATER USE OF COAL OR OIL MIGHT, IF CURRENT RECESSION CONTINUES, HANDICAP GAS INDUSTRY'S ABILITY TO DISPOSE OF LARGE QUANTITIES OF FOREIGN GAS NOW UNDER CONTRACT FOR MID-TERM (E.G., TRIANGULAR DEAL WITH USSR, IRAN).

5. BECKER CONCLUDED WITH OBSERVATION THAT ONGOING USG ENERGY DEBATE DIRECTLY AFFECTS FRG SITUATION. HE ASKED THAT, PRIOR TO NOVEMBER 26 CABINET SESSION, WE PASS TO HIM WHATEVER TEXTS BECOME AVAILABLE RE USG

DEBATE ON WINDFALL PROFITS TAX, OR EXTENSION OF OIL PRICE CONTROLS.

6. COMMENT: THOUGH FRG WOULD PREFER MINIMUM INTERVENTION IN ITS ENERGY MARKET, COAL DISTRESS AND UNRELIEVED DEPRESSION IN OIL ARE FORCING IT INTO MORE DIRECT ROLE. FRG CONCERN IS BOTH ECONOMIC AND CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BONN 18505 02 OF 02 121553Z

POLITICAL, PARTICULARLY IN CASE OF SENSITIVE COAL INDUSTRIES OF NORTHRHINE-WESTPHALIA AND SAARLAND. COAL INDUSTRY HAS BEEN PRODUCING IN LINE WITH FRG'S ENERGY PROGRAM WHICH FORECAST 1975 COAL PRODUCTION OF SOME 94 MILLION TONS. DEPRESSION IN STEEL AND POWER INDUSTRIES -- TWO LARGEST BUYERS OF COAL -- HAS MADE IT IMPOSSIBLE FOR INDUSTRY TO DISPOSE OF MUCH OF THIS PRODUCTION. RUHRKOHLE A.G., WHICH DOMINATES HARD-COAL MARKET, HAS ANNOUNCED THAT ITS COAL/COKE STOCKS MAY REACH 20 MILLION TONS BY YEAR'S END, TYING UP SOME DM 2.5 BILLION IN MAINTENANCE COSTS AND INTEREST. COMPANY WILL BEGIN SHORT WORK-WEEKS NEXT MONTH AND HAS HINTED AT FUTURE PIT-CLOSINGS AND POSSIBLE LAYOFFS IF FRG DOES NOT MOVE TO HELP FINANCE THESE STOCKS. WITH ECONOMY STILL IN DISARRAY, CHANCELLOR SCHMIDT AND HIS FDP PARTNERS CLEARLY DO NOT WISH TO ENTER ELECTION YEAR WITH MAJOR ADDITIONAL PROBLEMS IN RUHR. (ALREADY, CDU'S BIEDENKOPF HAS PROCLAIMED STRONG 1976 CAMPAIGN EFFORT IN THAT DISTRICT.) THIS CONSIDERATION PUTS ADDED PRESSURE ON FRG CABINET TO RELIEVE COAL INDUSTRY'S STOCKS BURDEN, AND TO TAKE OTHER PALLIATIVE STEPS ON BEHALF OF OIL INDUSTRY. END COMMENT. HILLENBRAND

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